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STATE FOR NEA/ARP, EB/IPR, EB/TRD
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STATE ALSO FOR USAID ANE

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SUBJECT: CUSTOMS MAKING PROGRESS

1. Summary: Yemen's existing customs and tariff schedule is calculated under the Brussels Definition of Value, which is not compliant with WTO standards. As part of the ROYG's economic reform package, reductions to customs and tariffs are being considered, but further revisions will be required for full WTO compliance. In 2003, imports of goods and services amounted to USD 4.561 billion. The United States is the fourth biggest exporter, contributing 6.3 percent of total imports. The Customs Administration contributes 20 million USD annually to the ROYG's 3 billion USD budget. End Summary.

Customs Valuation Assistance Needed

2. Based on the Brussels Definition of Value, national tariffs use nomenclatures issued by the World Customs Organization (WCO) and the Harmonized Commodity Description and Coding System (HS1996). In other words, while international standards for coding goods are used, to comply with WTO standards Yemen still must adopt the GATT Agreement on Customs Valuation and restructure its customs fees. As part of the ROYG's economic restructuring, tariff schedules were reduced in 1995 and customs procedures streamlined.

3. Customs duties are calculated according to C.I.F. (Customs Insurance and Freight) valuation for all imports on the date of the customs registry declaration. The tariff structure consists of ad-valorem duties of 5, 10, 15 and 25 percent on a total of 6,237 items. Duties on most food products are levied at 15 percent. Fifty-one percent, or 3,134 items are subject to the 10 percent tariff rate. Yemen does not apply countervailing duties, anti-dumping duties and safeguard measures. All goods and services are allowed for import into Yemen except those items deemed to conflict with Islamic guidelines, environmental interests, health, or national security.

4. Car tariffs are currently at the highest band, 25 percent, and are one of the tariff reductions under Parliamentary consideration. Foreign goods of any origin and source are allowed to transit the Aden Free Zone duty-free, but the transporter is charged a "service fee" for use of the Zone. Goods that enter Yemen from the Aden Free Zone are charged regular customs rates. If a company is eligible for tax breaks under Yemen's General Investment Law, fisheries, livestock and agricultural productions inputs are exempted from customs duty. Production inputs on other projects are exempted for 50 percent of customs duty. (Comment: Because implementation of the Investment Law is spotty at best, few companies have been able to take advantage of this credit. End comment.)

Customs Making Steady Progress With ASYCUDA

5. In 2001, the Customs Authority (CA) installed the Automated System for Customs Data (ASYCUDA), financed by the U.K. and supervised by United Nations Conference on Trade and Development (UNCTAD). The system aims at increasing revenue, reducing illegal trade, facilitating procedures, and enhancing transparency. Since installation, processing time at the entrances has been reduced from several days to 2-4 hours, smuggling illegal substances has become difficult, and importers report that they are more confident in the system's valuation credibility. In 2004, CA began testing an electronic clearance processing service for the most trusted traders. By 2005, all entry posts, including the Aden Free Zone, will use the electronic system.

6. Yemen purchased a \$ 23-million Container-Vehicle X-Ray System from China, and is installing the system at entry posts including the Aden Free Zone and Sanaa Airport. The new system will be connected to ASYCUDA processing measures, and will assist in combating smuggling.

Smuggling Undermines Progress

7. Yemen's Industrialist Union estimates that 56 percent of all available goods in Yemen are smuggled -- a total loss of 133 Billion Yemeni Riyals (720 million USD or 1/4 of total budget) to the public treasury. Nearly one-fifth (YR 27bn) of all smuggled

products pass through official entry posts, and the transit of such goods is likely facilitated by government employees. Businessmen cite smuggling as one of their greatest problems, and blame high customs and tariff rates and ineffective enforcement for exacerbating the problem. In addition to the influx of smuggled goods, ROYG officials are increasingly concerned that foreign countries are dumping expired goods in Yemen. Smuggled and "dumped" medicine is a particular concern because it is often exposed to extreme heat and unsanitary conditions, weakening or destroying its effectiveness.

Dispute Resolution

18. According to Yemen's Customs Law, if a dispute arises between the CA and a shipment owner, it must be referred within 8 days to two experts, one appointed by the authority and the other by the owner of the goods. If both experts agree, their decision is final. If an agreement cannot be reached, an arbitration committee is formed consisting of a permanent representative of the Minister of Finance or two CA and Yemen Standards and Metrological Organization (YSMO) representatives. The arbitration committee's decision is final and binding, and the losing party incurs the arbitration expenses. (Comment: Most disputes are resolved privately and Post is unaware of frequent use of the arbitration option. End comment.)

Consumption or Value Added Tax

19. A consumption tax or a value added tax (VAT) is levied on certain imported commodities, including those manufactured in the free zones. Imports for domestic consumption are taxed at the same rate as locally produced goods.. The VAT varies according to product type. For various oil derivatives, for example, the tax ranges between 0.5 percent and 2 percent for each liter depending on price and quality. For local and imported lubricants, however, the tax charged is a set 2 percent of price. Movie tickets and video sales and rentals are taxed at 15 percent.

Comment

110. Comment: Yemen's customs regime has the potential to raise revenue and reduce smuggling. With a proven track record of reform, the Customs Administration could be a venue for future U.S. assistance. MEPI and USAID are currently considering assistance for Yemen's customs valuation system. Other needs include additional inspection equipment, training of agents and inspectors, and increased interagency cooperation. End comment.

Krajeski